

THIRD DIVISION

[G.R. NO. 119107, March 18, 2005]

**JOSE V. LAGON, PETITIONER, VS. HONORABLE COURT OF
APPEALS AND MENANDRO V. LAPUZ, RESPONDENTS.**

DECISION

CORONA, J.:

On June 23, 1982, petitioner Jose Lagon purchased from the estate of Bai Tonina Sepi, through an intestate court,^[1] two parcels of land located at Tacurong, Sultan Kudarat. A few months after the sale, private respondent Menandro Lapuz filed a complaint for torts and damages against petitioner before the Regional Trial Court (RTC) of Sultan Kudarat.

In the complaint, private respondent, as then plaintiff, claimed that he entered into a contract of lease with the late Bai Tonina Sepi Mengelen Guiabar over three parcels of land (the "property") in Sultan Kudarat, Maguindanao beginning 1964. One of the provisions agreed upon was for private respondent to put up commercial buildings which would, in turn, be leased to new tenants. The rentals to be paid by those tenants would answer for the rent private respondent was obligated to pay Bai Tonina Sepi for the lease of the land. In 1974, the lease contract ended but since the construction of the commercial buildings had yet to be completed, the lease contract was allegedly renewed.

When Bai Tonina Sepi died, private respondent started remitting his rent to the court-appointed administrator of her estate. But when the administrator advised him to stop collecting rentals from the tenants of the buildings he constructed, he discovered that petitioner, representing himself as the new owner of the property, had been collecting rentals from the tenants. He thus filed a complaint against the latter, accusing petitioner of inducing the heirs of Bai Tonina Sepi to sell the property to him, thereby violating his leasehold rights over it.

In his answer to the complaint, petitioner denied that he induced the heirs of Bai Tonina to sell the property to him, contending that the heirs were in dire need of money to pay off the obligations of the deceased. He also denied interfering with private respondent's leasehold rights as there was no lease contract covering the property when he purchased it; that his personal investigation and inquiry revealed no claims or encumbrances on the subject lots.

Petitioner claimed that before he bought the property, he went to Atty. Benjamin Fajardo, the lawyer who allegedly notarized the lease contract between private respondent and Bai Tonina Sepi, to verify if the parties indeed renewed the lease contract after it expired in 1974. Petitioner averred that Atty. Fajardo showed him four copies of the lease renewal but these were all unsigned. To refute the existence of a lease contract, petitioner presented in court a certification from the Office of the

Clerk of Court confirming that no record of any lease contract notarized by Atty. Fajardo had been entered into their files. Petitioner added that he only learned of the alleged lease contract when he was informed that private respondent was collecting rent from the tenants of the building.

Finding the complaint for tortuous interference to be unwarranted, petitioner filed his counterclaim and prayed for the payment of actual and moral damages.

On July 29, 1986, the court a quo found for private respondent (plaintiff below):

ACCORDINGLY, judgment is hereby rendered in favor of the plaintiff:

1. Declaring the "Contract of Lease" executed by Bai Tonina Sepi Mangelen Guiabar in favor of the plaintiff on November 6, 1974 (Exh. "A" and "A-1") over Lot No. 6395, Pls-73. Lot No 6396. Pls.-73. Lot No. 6399. 3ls-73, and Lot no.9777-A. CSD-11-000076-D (Lot No. 3-A. 40124), all situated along Ledesma St., Tacurong, Sultan Kudarat, which document was notarized by Atty. Benjamin S. Fajardo, Sr. and entered into his notarial register as Doc. No. 619. Page No. 24. Book No. II. Series of 1974, to be authentic and genuine and as such valid and binding for a period of ten (10) years specified thereon from November 1, 1974 up to October 31, 1984;
2. Declaring the plaintiff as the lawful owner of the commercial buildings found on the aforesaid lots and he is entitled to their possession and the collection (of rentals) of the said commercial buildings within the period covered by this "Contract of Lease" in his favor;
3. Ordering the defendant to pay to the plaintiff the following:
 - a) Rentals of the commercial buildings on the lots covered by the "Contract of Lease" in favor of the plaintiff for the period from October 1, 1978 up to October 31, 1984, including accrued interests in the total amount of Five Hundred Six Thousand Eight Hundred Five Pesos and Fifty Six Centavos (P506, 850.56), the same to continue to bear interest at the legal rate of 12% per annum until the whole amount is fully paid by the defendant to the plaintiff;
 - b) Moral damages in the amount of One Million Sixty Two Thousand Five Hundred Pesos (P1,062,500.00);
 - c) Actual or compensatory damages in the amount of Three Hundred Twelve Thousand Five Hundred Pesos (P312, 500.00);
 - d) Exemplary or corrective damages in the amount of One Hundred Eighty Thousand Five Hundred Pesos (P187,500.00)
 - e) Temperate or moderate damages in the amount of Sixty

Two Thousand Five Hundred Pesos (P62,500.00);

f) Nominal damages in the amount of Sixty Two Thousand Five Hundred Pesos (P62,500.00);

g) Attorney's fees in the amount of One Hundred Twenty Five Thousand Pesos (P125,000.00);

h) Expenses of litigation in the amount of Sixty Two Thousand Five Hundred Pesos (P62,500.00);

i) Interest on the moral damages, actual or compensatory damages temperate or moderate damages, nominal damages, attorney's fees and expenses of litigation in the amounts as specified hereinabove from May 24, 1982 up to June 27, 1986, in the total amount of Nine Hundred Thousand Pesos (P900,000.00); all of which will continue to bear interests at a legal rate of 12% per annum until the whole amounts are fully paid by the defendants to the plaintiffs;

4. For failure of the defendant to deposit with this Court all the rentals he had collected from the thirteen (13) tenants or occupants of the commercial buildings in question, the plaintiff is hereby restored to the possession of his commercial buildings for a period of seventy-three (73) months which is the equivalent of the total period for which he was prevented from collecting the rentals from the tenants or occupants of his commercial buildings from October 1, 1978 up to October 31, 1984, and for this purpose a Writ of Preliminary Injunction is hereby issued, but the plaintiff is likewise ordered to pay to the defendant the monthly rental of Seven Hundred Pesos (P700.00) every end of the month for the entire period of seventy three (73) months. This portion of the judgment should be considered as a mere alternative should the defendant fail to pay the amount of Five Hundred Five Pesos and Fifty Six Centavos (P506,805.56) hereinabove specified;

5. Dismissing the counterclaim interposed by the defendant for lack of merit;

6. With costs against the defendant.^[2]

Petitioner appealed the judgment to the Court of Appeals.^[3] In a decision dated January 31, 1995,^[4] the appellate court modified the assailed judgment of the trial court as follows:

a) The award for moral damages, compensatory damages, exemplary damages, temperate or moderate damages, and nominal damages as well as expenses of litigation in the amount of P62,500.00 and interests under paragraph 3-a(a), (b), (c), (d), (e), (f), (g), (h), and (i) are deleted;

b) The award for attorney's fees is reduced to P30,000.00;

c) Paragraphs 1,2,5 and 6 are AFFIRMED;

d) Additionally, the defendant is hereby ordered to pay to the plaintiff by way of actual damages the sum of P178,425.00 representing the amount of rentals he collected from the period of October 1978 to August 1983, and minus the amount of P42,700.00 representing rentals due the defendant computed at P700.00 per month for the period from August 1978 to August 1983, with interest thereon at the rate until the same is fully paid;

e) Paragraph 4 is deleted.^[5]

Before the appellate court, petitioner disclaimed knowledge of any lease contract between the late Bai Tonina Sepi and private respondent. On the other hand, private respondent insisted that it was impossible for petitioner not to know about the contract since the latter was aware that he was collecting rentals from the tenants of the building. While the appellate court disbelieved the contentions of both parties, it nevertheless held that, for petitioner to become liable for damages, he must have known of the lease contract and must have also acted with malice or bad faith when he bought the subject parcels of land.

Via this petition for review, petitioner cites the following reasons why the Court should rule in his favor:

1. The Honorable Court of Appeals seriously erred in holding that petitioner is liable for interference of contractual relation under Article 1314 of the New Civil Code;
2. The Honorable Court of Appeals erred in not holding that private respondent is precluded from recovering, if at all, because of laches;
3. The Honorable Court of Appeals erred in holding petitioner liable for actual damages and attorney's fees, and;
4. The Honorable Court of Appeals erred in dismissing petitioner's counterclaims.^[6]

Article 1314 of the Civil Code provides that any third person who induces another to violate his contract shall be liable for damages to the other contracting party. The tort recognized in that provision is known as interference with contractual relations.

^[7] The interference is penalized because it violates the property rights of a party in a contract to reap the benefits that should result therefrom.^[8]

The core issue here is whether the purchase by petitioner of the subject property, during the supposed existence of private respondent's lease contract with the late Bai Tonina Sepi, constituted tortious interference for which petitioner should be held liable for damages.

The Court, in the case of *So Ping Bun v. Court of Appeals*,^[9] laid down the elements of tortious interference with contractual relations: (a) existence of a valid contract;